



file DA 64
cc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26 June 1986

Dear Richard,

BRITISH AIRWAYS ENGINES

The Prime Minister was grateful for your Secretary of State's minute of 25 June reporting the present position on BA's choice of engine for the Boeing 747-400. She agrees strongly with the line which your Secretary of State proposed to take in discussion with Lord King, namely welcoming BA's wish to stick with Rolls Royce as a supplier, other things being equal, and impressing upon him the sensitivity of the decision.

I am copying this to the Private Secretaries to members of E(A), Murdo Maclean (Chief Whip's Office) and Michael Stark (Cabinet Office).

Yours,

David,

(DAVID NORGROVE)

Richard Allan, Esq.,
Department of Transport.

RA



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 PRIME MINISTER

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This is an interim response to your request for a report on the financial and other aspects of BA's choice of engine for the Boeing 747-400. There have been a number of significant developments since my minute to you of 11 June:

- a) Pratt and Whitney, who had previously told BA that they believed the result would be a foregone conclusion have now changed their minds and asked if they may submit a quotation. Since BA are still in discussion with both the other manufacturers they felt bound to agree, but have insisted that it must be submitted quickly, it must be their final offer, and it must include operating lease finance proposals.
- b) General Electric have said that they are ready to improve the terms of their offer, and BA should have the details by the end of this week.
- c) Rolls Royce have produced a new offer which, I understand, includes an operating lease finance proposal. They will need to discuss the details with Boeing and will not be able to finalise their offer until next week. It does, however, seem that Rolls Royce's status as a public sector company is not preventing them from offering off-balance sheet financing to BA, a point which particularly concerned Norman Tebbit, though it remains to be seen whether they can match their competitor's terms. We shall need to consider whether the Government's interest as shareholder and the impending privatisation may exercise a degree of restraint on the terms they can offer.



Despite these developments, BA will still aim to complete their evaluation early in July. We will need to await BA's evaluation before we are able to compare the financial packages offered and to assess the balance of commercial and technical advantage, and to identify the wider implications for the two companies. My officials have, however, had a preliminary meeting with those of the Treasury, DTI, Cabinet Office, MOD Procurement Executive and Number 10 Policy Unit to identify the work which can usefully be completed internally before we receive BA's proposals.

I am meeting Lord King today. I shall urge him to keep my Department closely in touch with developments, and in particular to let us have details of the competing proposals and to tell us how BA' evaluation is turning out before the Board take a decision so that Ministers can first have a collective discussion of the issues if necessary. I shall also say that I welcome BA's wish to stick with Rolls Royce as a supplier, other things being equal, and impress upon him the sensitivity of this decision.

I am copying this minute to the members of E(A), to the Chief Whip and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'Jm.' with a flourish.

JOHN MOORE

25 June 1986

AGROSPACE : BA 175.

